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PROPERTY TAX REFORM AND EDUCATIONAL FINANCE IN ONTARIO

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I INTRODUCTION

School finance in Ontario has been for some time a turbulent policy area, owing to the pressures resulting from declining enrolments and rising public disenchantment with education and its cost. This already difficult situation has been further exacerbated in recent years by the uncertainty afflicting the Ontario property tax system as a result of the on-again, off-again move towards market-value assessment. The purpose of this paper is to explore the relationships, actual and potential, between the current proposals for property tax reform and the educational finance system.

Section II of the paper outlines briefly the history of property tax reform in Ontario over the last decade, concluding with a brief look at the system presently being considered by the provincial government - and at the prospect that it (or something like it) will be adopted in the near future. This historical sketch is followed in Section III by a brief quantitative overview of the changing role of the property tax in Ontario municipal and school finance. Section IV then brings out, again mainly in quantitative terms, one of the more important themes in this paper: the wide variations among the many diverse regions that make up Ontario. The complexity of this provincial mosaic is such that no simple general solution seems likely to be applicable.

Against this background, Section V then considers some of the probable effects of the reforms under discussion on various aspects of the existing system of financing education. As this discussion brings out clearly, there are so many uncertainties in this area that it is really more important to understand the basic policy issues than to attempt to make decisions on the basis of the various sets of numbers -- usually transitory, and always changeable -- that have been put forth by various participants in the debates. Many of these issues do not seem as yet to have been discussed as explicitly as would really be desirable; partly for this reason, the final section of the paper, Section VI, outlines some alternative proposals that seem to warrant closer consideration than they have so far received, even at this late date and after all the discussion that has already taken place.

Three such proposals are sketched briefly. The first -- the provincial assumption of all educational costs, to be financed in part by "provincializing" non-residential property taxes -- is the most closely related to the main

body of the paper. The second -- a reform in educational grants -- would perhaps be most important if the first proposal were not implemented, while the third -- a redirection of the property tax "reform" -- probably goes beyond t-e terms of reference of this paper; it is nevertheless included both for its possible intrinsic interest and because the preceding discussion has made plain the unsatisfactory nature of the "reform" now under consideration. The conclusion that appears to emerge most clearly from this discussion is that the many relationships among all three areas -- school finance, grant reform, and property tax reform -- need to be considered explicitly in order to arrive at the "right" conclusions with respect to any one of them.

II A DECADE OF "REFORM"

The Smith Committee

The modern history of property tax reform in Ontario begins with the report of the Smith Committee in 1967 (Ontario Committee on Taxation, 1967).[1] This Committee condemned the existing property tax as both inherently regressive and inequitably administered and recommended, among other things: (1) that real property be assessed at "actual" value, (2) that the province play an increased role in assessing real property, (3) that increased provincial grants be used to reduce the weight of the tax, and (4) that its regressivity also be alleviated more directly. All these recommendations have since been implemented, in one way or another.

In 196-, for example, a Residential Property Tax Reduction Act was introduced in an attempt to provide direct relief to low-income property taxpayers. A few years later, in 1972, the present system of crediting a portion of (presumed) property taxes against personal income taxes replaced this Act. The purpose of both these measures was to relieve low-income taxpayers from the perceived regressive burden of the tax, thus implementing one of the Committee recommendations mentioned above. Similarly, the province took steps to relieve the financial pressures on municipalities and school boards by expanding provincial grants considerably in line with another of the Committee's recommendation

A more important change in the present context was the complete provincial

[1] The first part of this section draws heavily on Bird and Slack (1978), Chapter 1.

take-over in 1970 of the function of assessing real property -- a move that went beyond the Smith Committee's recommendations -- and the associated commitment to adopt full market-value assessment as the base for property taxes throughout the province. The proposed shift to market-value assessment is one of the most important tax changes considered in Ontario in recent years, in part because this shift would, unless deliberately offset, result in the transfer of large amounts of wealth from some sections of the community to others.[2] Since those on the losing side of such a wealth transfer are most unlikely to be happy, any government that proposes to carry out such a policy change is going to have to compromise and negotiate with the affected groups; this has certainly been the case in Ontario.

The 1976 Proposals

Following several postponements of the scheduled date for the introduction of market value assessment, the current debate was well launched by a set of proposals in the April 1976 budget on how the tax system might be altered before introducing the market value system.[3] The system proposed in this document included the following features: (1) the introduction of a classified property tax, with residences to be taxed (approximately) at 50 percent of market value and all other property, including such public property as that held by school boards, at 100 percent of market value; (2) the entire tax on farm property to be paid by the province; (3) all real property used for business purposes to be assessed an additional 50 percent (that is, at 150 percent in total) for business tax purposes; (4) exempt property to be limited to that used for churches, cemeteries and Indian lands; (5) the assessment on provincial government property to be pooled and assigned between public and separate elementary schools in the same proportion as residential assessment;

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[2] This statement assumes that existing property-tax differentials are largely capitalized in property values; see, e.g., Bird and Slack (1968), Appendix A.

[3] See "Reform of Property Taxation in Ontario," Budget Paper E, in Ontario Budget 1976 (Ministry of Treasury, Economics and Intergovernmental Affairs). The discussion of this report, like that of the other official documents cited in this section, is necessarily severely condensed, with the result that many nuances important for particular classes of property and jurisdictions are not covered in detai-.

(6) property taxes paid by school boards to be treated as allowable expenses for grant purposes; and (7) 1975 market values to be applied for 1978 tax purposes, with a five-year phase-in to avoid abrupt tax changes (that is, it would be 1982 before the 1975 value base would be fully applied).

A Commission chaired by W.L. Blair was immediately appointed to consider these proposals in more detail. The Blair Commission reported in March 1977 after holding 30 days of hearings and receiving 900 briefs (Report of the Commission, 1977). For the most part, the Commission's Report supported the main 1976 Budget proposals outlined above, although it fleshed out many further details. The major additional or altered recommendations worth noting here are: (1) farmers to pay 10 percent of the assessed taxes, with the balance coming from the province; (2) exemption to be extended to charitable and non-profit organizations in certain circumstances and exempt assessment to be included for grant purposes; (3) the pooling of assessment for school purposes to be extended to all government properties for which payments in lieu of taxes are made; (4) school boards to be able to assign the taxable assessment of their own property to their own systems; and (5) existing grant ceilings to be revised to ensure that the outlays for property taxes of grant-supported bodies attracted the same grant support as other expenditures.

The Current Situation

The government's response to the Report of the Blair Commission was to issue yet another set of proposals in January 1978 -- the so-called "Alternative System" (Remarks on Property Tax Reform, 1978). This Alternative System continued in broad outline to resemble the proposals originally put forth in the 1976 Budget, but it moved even further in the direction of a classified property tax, with different fractions of assessment to be subject to tax for different classes of property, particularly for business tax purposes, where the existing differential rates, only slightly altered, would continue to apply. Instead of the uniform assessment of 150 percent originally proposed in the 1976 budget, business assessment under the Alternative System would range from 130 percent to 240 percent. These proposals also reverted to 100 percent provincial payment of farm taxes (and went even further than either of the earlier reports by essentially removing the requirement that these taxes be

recovered if the property changed use) and softened up further on exemptions, permitting most existing exemptions to continue. Finally, in view of the time elapsed, it was proposed that 1975 market values be introduced in 1978 for application in 1979, with a discretionary phase-in of up to five years (that is, up to 1983).

Those organizations whose pleas for relief had not been received favourably either by the Blair Commission or by the provincial Alternative System (which took into account at least a dozen major briefs received in response to the Blair Report) received yet another opportunity to be heard with the appointment of yet another committee to consider the Alternative System proposals (Report of the Provincial-Local Government Committee, 1978). This Committee received another 180 or so briefs -- many of them, of course, from the same organizations and stating arguments similar to those already heard, officially, several times.[4]

Although the Committee Report submitted in April 1978 supported many aspects of the Alternative System, two major new changes were recommended: (1) multiple residences (those with more than 5 units) to be taxed on 75 percent of market value; and (2) Metro Toronto to be allowed to deviate for up to 3 years from the general 50 and 75 percentages now proposed for single and multiple residences -- for example, to 45 and 80 percent. Like some of the other proposals emerging from the Committee -- indeed, like almost every official document and brief over the last two years -- the effect of these recommendations would be to reduce substantially the tax shift (especially on single-family residences) that would otherwise take place as a result of the introduction of market-value assessments.

The response to the Committee report over the last month suggests strongly that the end point of this drawn-out process of attrition away from the pristine purity of the original notion of market-value assessment has not yet been reached. Although the continuing uncertainty as to what, if anything, will

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[4]In view of this history, the continued complaints by some organizations and individuals that they have not been "consulted" on property tax reform are incomprehensible - unless, as one might suspect, by "consultation" most people really mean "agreement"!

actually be done, and when it will be done, makes it difficult to be very precise in discussing the impact of property tax reform on the educational finance system, this brief account of some of the complex events of recent years should suffice to make at least two key points clear. In the first place, no significant shift in the allocation of property taxes among classes of property seems likely to prove acceptable. In particular, some device will almost certainly be found to eliminate (or at least postpone drastically) the tax impact of even the most overdue adjustments in the assessed values of single-family residences. Secondly, it follows that whatever emerges from this "reform" process is most unlikely to bear any resemblance to the clear, simple notions of redressing glaring inequity that were probably originally in the minds of the proponents of market value assessment. It remains an open question, therefore, whether the final results of whatever reform that finally emerges from the mountain of talk and paper built up over the last few years will, in the end, prove worthwhile. This question is considered further in the final section of this paper.

III A QUANTITATIVE OVERVIEW

Most school financing in Ontario comes directly from the provincial government in the form of grants. Over the 1970-74 period, for example, education grants grew at an annual rate of 12 percent while school taxes rose only at 2 percent and school board spending at 6 percent.[5] Even though provincial grants to municipalities grew even faster in this same period than those to school boards, in contrast municipal property taxes also grew much faster at 9 percent annually. By 1974, property taxes provided only 38 percent of school board revenue, and school property taxes accounted for only 44 percent of total property taxes -- both proportions being much lower than only five years earlier.[6] As Table 1 suggests, however, this picture has changed sharply in the last few years.

Although total school board revenues, like total municipal revenues, increased by little more than 50 percent from 1974 to 1977, their composition

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[5] All figures in from the Ministry of Treasury (1977) unless otherwise indicated.

[6] For a brief account of school finance in earlier years, see Bird (1978), pp. 4-5.

TABLE 1

LOCAL GOVERNMENT REVENUES, ONTARIO 1974-77

(millions of dollars)

	1974	1975	1976	1977
Municipalities				
Taxation	1,105	1,311	1,469	1,640
Ontario Grants	944	1,233	1,288	1,455
Other Revenues	455	570	697	815
Sub-Total	2,504	3,114	3,454	3,910
School Boards				
Taxation	877	1,040	1,296	1,480
Ontario Grants	1,333	1,633	1,724	1,875
Other Revenues	71	76	83	90
Sub-Total	2,281	2,749	3,103	3,445
Total Local Sector				
Taxation	1,982	2,351	2,765	3,120
Ontario Grants	2,277	2,866	3,012	3,330
Other Revenues	526	646	780	905
Total	4,785	5,863	6,557	7,355

Note: Totals may not add due to rounding. "Other Revenues" includes provincial payments in lieu of taxes. 1977 figures are estimates.

Source: Ministry of Treasury (1977), Local Government Finance in Ontario, 1975 and 1976, pp. 5, 10, 14.

changed sharply, largely because of a decline in the relative importance of provincial grants. From 58 percent of total school board revenues in 1974, grants fell to 54 percent in 1977, although grants to municipalities continued to provide about 37 percent of their revenue. As a result, school taxes rose to 43 percent of school board revenue, and 47 percent of total property taxes, by 1977. The increase in school taxes was especially sharp from 1975 to 1976 -- 25 percent (representing a 21 percent increase in mill rates for school purposes and a 4 percent growth in the tax base) or over twice the rate of growth of municipal taxes in 1976.

The most likely explanation for this dramatic change in a single year is the fact that there were a number of very large wage settlements with teachers in 1975.[7] The increases granted in these settlements led to expenditure increases in excess of the "recognized" expenditures of school boards for 1976. Since, as explained in Section V below, expenditures in excess of this limit must be financed entirely through additional property taxes, it is this factor which appears to explain the sharp rise in school taxes in 1976.

This rise in school taxes also accounts for the partial reversal since 1975 of the marked downward trend in the relative importance of property taxes in Ontario. As Table 2 shows, average residential property taxes rose from 2.4 percent of household income in 1974 to 2.6 percent in 1977. Although this figure was still well below the 3.2 percent recorded in 1970, the absolute level of taxes - which is of course the only figure of which most taxpayers are really aware - rose from $361 in 1970 to $544 in 1977, again with the sharpest jump in 1976.[8] Residential taxes for school purposes, although they

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[7]For example, Stager (1978), p. 20, indicates that the median salary of public elementary teachers rose over $1100 in that year while that of secondary teachers rose by over $1500. Gunderson (1977) also shows the impact of large wage settlements in the Ontario educational sector in 1975.

[8]The province often presents this analysis in "net" terms, treating the propert-tax credit as an offset to the "gross" property tax shown in Table 2. We have not followed this procedure both because it makes no difference to the trends emphasized (since the average credit was virtually unchanged from 1974 to 1977) and because we do not believe that for most purposes it is correct to treat this income tax credit as an offset to property taxes; see Bird and Slack (1978), Chap. 7, for further discussion.

TABLE 2

AVERAGE RESIDENTIAL PROPERTY TAXES PER HOUSEHOLD, ONTARIO, 1970-77

($)

	1970	1974	1975	1976	1977 [a/]
Municipal Taxes and Charges	181	212	244	263	284
School Taxes	180	171	195	236	260
Total Property Taxes	361	383	439	499	544
Share of Household Income (%)					
Total Property Taxes	3.2	2.4	2.4	2.5	2.6
(School Taxes)	(1.6)	(1.1)	(1.1)	(1.2)	(1.2)

Note: [a/] Estimated

Source: Ministry of Treasury (1977), Local Government Finance in Ontario, 1975 and 1976, pp. 6, 15.

actually fell in absolute terms from 1970 to 1974, by 1977 were also much higher than in 1970; nevertheless, they too constituted a substantially smaller fraction of household income in the later year. Even from 1975 to 1977, when the increase in taxes was most marked, the elasticity of property taxes with respyct to household income was only 1.08; over the longer 1970-77 period, the corresponding figure was only 0.81.

The level of property taxes also varied sharply within the province. In general, Metro Toronto's residential property taxes, both in absolute terms and as a proportion of average household income are higher than the provincial average, while taxes are much lower in both senses in rural Ontario, particularly the northern part of the province. In 1976, for example, "the Metro level of $618 per household was 24 percent above the provincial average and more than double the average in rural parts of the province" (Ministry of Treasury (1977), 11). As discussed further in Section IV below, the same results emerge when taxes are considered in relation to market values.

The behaviour of the property tax in relation to income is of interest largely because income is the usual standard by which we judge the progressivity and elasticity of taxes. The tax is not directly related to income, however, so it is of interest also to consider its growth from other perspectives, as is done in Table 3. As shown there, from 1969 to 1976, taxable assessed valuation fell sharply in relation to gross provincial product (GPP). After allowing for price level changes, there was even a fall in assessed valuations in per capita terms. It is not surprising, therefore, that the yield of the property tax in real terms also fell sharply. What may perhaps be more surprising in view of the continually mounting taxpayer protest against property taxes is the fact that taxes also fell as a percent of assessed valuation; although the tax rate on the assessed valuation rose slightly from 8.8 percent in 1969 to 9.2 percent in 1976,[9] the taxes collected in real terms -- in terms of what the government could buy with the money -- actually fell (from

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[9] Since assessed values certainly fell as a proportion of market values over this period of rising prices, a rising tax rate on assessed values is of course quite consistent with a declining effective tax rate (that is, in relation to market values); the importance of the effective rate is discussed in Bird and Slack (1978), pp. 44-5, and elsewhere.

TABLE 3

RELATIVE CHANGES IN ASSESSED VALUES AND PROPERTY TAXES, ONTARIO, 1969-76

	Current Dollars		Percentage Change	Constant $1976		Percentage Change
	1969	1976		1969	1976	
Assessed valuation ($millions)	16,320	30,118	85	28,270	30,118	7
As percent of GPP	50.0	38.9	-22	50.0	38.9	-22
Per capita ($)	2,210	3,615	64	3,828	3,615	- 6
Property taxes ($millions)	1,438	2,765	92	2,870	2,765	- 4
As percent of GPP	4.4	3.6	-18	5.1	3.6	-29
As percent of assessed valuation	8.8	9.2	5	10.2	9.2	-10
Per capita ($)	195	332	70	389	332	-15
Residential and farm taxes per capita ($)	113	14	72	226	194	-14

Notes: Assessed valuation figures are total taxable valuations. Property taxes include special charges and business taxes but exclude payments in lieu of taxes. Gross provincial product at market prices and assessed valuations are deflated by the national accounts implicit GNE index for government current expenditure on goods and services.

Sources: Ontario Statistics 1976 - population, GPP; National Income and Expenditure Accounts - deflators; Ontario, Municipal Financial Information and Local Government Finance in Ontario, 1975 and 1976 - assessed valuation and taxes.

10.2 to 9.2 percent).[10] While property tax revenues in absolute terms rose 92 percent from 1969 to 1976, and in per capita terms rose 70 percent, both measures fell sharply in relation to GPP. When the substantial price level changes over the period are also taken into account, the per capital yield of the property tax in real terms also fell from 1969 to 1976 - as did per capita taxes on residential and farm properties.

Over the more recent 1974-76 period, however, in contrast to the figures at the bottom of the right-hand column of Table 3, per capital property taxes in real terms actually <u>rose</u> by 3 percent, while residential prope-ty taxes per capita in real terms rose by 6 percent. On most relevant economic measures, then, property taxes in Ontario, including school property taxes, were much less important in 1976 than in 1969 - but they were a little more important in 1976 than had been the case in 1974. As Table 2 suggests, 1977 apparently saw a continuation of the upward creep of property taxes. Although taxes on real property, including residences (which appear to be all people really case about), are still relatively much le-s important than they were at the beginning of the decade, there is thus little question that the last few years have seen a reversal of earlier trends and a rise in property tax. The coincidence of increasing taxes, general economic slowdown, and apparently rising dissatisfaction with the school system goes a long way to explain the present turmoil in the field of school finance in Ontario.

IV THE PROVINCIAL MOSAIC

Some of the most difficult financial problems resulting from the sharp decline in school enrolments projected for Ontario over the next few years arise as a result of the wide variations <u>within</u> the province. Ontario does not present a monolithic picture to the observer; rather, the province is more like a mosaic of very different pieces, each with its own problems and each requiring its own solutions. This section illustrates the extent of these intraprovincial variations, for certain selected areas. Although these areas were

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[10] Table 3 is constructed primarily to give some idea of what governments can buy with the revenues they receive. Taxpayers are probably more directly interested in what they can buy with what they have left; since the deflator for government goods and services went up more quickly than the general GPP deflator over this period, taxpayers were not actually left quite as well off in terms of private purchasing power as Table 3 suggests.

selected primarily on the pragmatic basis of data availability, it is believed that they reflect adequately the major components of Ontario's complex reality: Metropolitan Toronto, the urbanizing growth regions (Peel, York), the urban and rural parts of southwestern Ontario (Lampton, Kent, London, Windsor), eastern Ontario (Prescott and Russell) and the North (Sudbury and Thunder Bay) are all represented. In total, the areas covered here account for 42 percent of total school enrolments in 1976.

Table 4 succintly summarizes the widely ranging dimensions of the shifts expected in school enrolments in the next decade. Metro Toronto, for example, which alone accounted for 21 percent of Ontario school enrolment in 1976, is expected to see a spectacular decline in both the public and separate school systems and at both the elementary and secondary levels. By 1986, it is estimated the Metro school systems will have less than 300,000 pupils and account for only 17 percent of the considerably reduced provincial total. In contrast, the neighbouring (and rapidly urbanizing) Region of Peel is expected to rise from 92,322 pupils in 1976 (less than 5 percent of the total) to over 142,000 in 1986 (over 8 percent of the total). Clearly, the financial implications of these shifts for Metro and Peel are totally different. Regions where enrolment will decline in some segments of the school system - for example, the secondary schools in Prescott and Russell -- may have to cope with increases in other segments -- as in the public elementary system in the same county. If one further remembers that even wider variations can often be expected <u>within</u> the large districts covered in Table 4, the improbability that simple, broad solutions exist to "the" educational finance problem should become even more obvious. This point is reinforced when the widely varying financial bases in the different areas are taken into account, as in the next tables.

Table 5, for example, illustrates the wide variation in the composition of the real property tax base (at market value) in different municipalities. Residential property, for example, constitutes over 60 percent of the potential tax base in the City of Windsor but less than 41 percent in the nearby County of Kent. The other components of the base show similar variations; school board property, for instance, ranges from only 1 percent of the total in Windsor to almost 6 percent in Sudbury. These figures do not, of course, represent either the actual tax base or the "weighted" base (weighted according to

TABLE 4

PROJECTED CHANGE IN ENROLMENT FOR PROVINCE AND SELECTED AREAS, 1976-86

	Public Elementary (%)	Public Secondary (%)	Separate (%)	Total Enrolment 1976
Province	- 11.4	- 18.0	- 7.7	1,973,140
Metropolitan Toronto	- 29.5	- 26.3	- 21.3	409,263
Region of Peel	+ 34.5	+ 46.2	+118.4	92,322
Region of Sudbury	- 30.4	- 29.5	- 27.4	50,907
Region of York	+ 12.7	+ 4.5	+ 48.5	45,957
City of Windsor	- 24.3	- 28.0	- 26.5	42,590
County of Kent	- 12.4	- 20.3	- 15.3	24,233
County of Lambton	+ 2.6	- 8.8	+ 18.2	26,017
City of London	- 17.4	- 27.9	- 19.0[a]	52,249
County of Prescott and Russell	+ 41.8	- 17.5	- 3.6	11,978
District of Thunder Bay	- 13.3	- 18.3	- 11.9	33,304

Note: [a] For Middlesex, including London.

Source: CODE Interim Report (1978), pp. 139, 140, 141, 157.

TABLE 5

DISTRIBUTION OF MARKET-VALUE PROPERTY TAX BASE, BY CLASS OF PROPERTY, SELECTED AREAS, 1976[a/]

(Per Cent)

Area	Single-Family Residential	Multiple Residential[b/]	Commercial-Industrial	Other[c/]	Provincial Government	Municipal Government	School Boards
Metro Toronto	43.9	14.0	19.3	8.7	5.8	3.7	4.4
Region of Peel	45.6	5.8	14.4	17.8	11.6	1.7	3.0
Region of Sudbury	38.3	11.3	23.5	11.1	7.0	3.1	5.7
Region of York	47.8	3.1	11.5	15.3	16.8	1.6	2.5
City of Windsor	50.0	10.7	18.0	8.1	9.5	2.6	1.3
County of Kent	35.1	5.5	11.9	12.4	30.2	1.2	3.6
County of Lambton	43.1	5.6	13.6	13.1	19.4	1.7	3.5
City of London	46.1	14.3	15.2	7.6	10.3	2.1	4.3
County of Prescott and Russell	40.8	7.8	11.6	14.2	17.7	3.0	4.9
City of Thunder Bay	42.6	8.6	22.7	9.5	7.6	3.6	5.4

Notes: a/ - Unweighted realty assessments; 1975 market values; b/ Includes reidences with 2 or more dwelling units; c/ "Other" includes farms, vacant residential and commercial land, vacant commercial and industry property, lodges, clubs and associations, railways, transmission lines, federal government, Ontario Hydro and municipal public utilities.

Source: Calculated from data obtained from Ministry of Treasury, Economics and Intergovernmental Affairs.

the classification system finally adopted) that may be put into place in the future. Under the system proposed by the most recent Committee, for example, single-family residences (defined to include residential properties with less than six units) would be taxed at only 50% of market value (45% in Metro Toronto) and business properties at a wide range of different rates.

Table 6 indicates the sorts of shifts in tax burden that would occur if the property tax were moved from the present assessment bases to a full market-value system; again, these figures are for unweighted realty assessments only. The variation both among jurisdictions -- assessed value in Thunder Bay is only 10 percent of market value compared to 45 percent in Peel, for example -- and among types of properties within jurisdictions -- perhaps most dramatically between single-family and multiple residences in Toronto -- is clear from this table. Although Table 6 provides only a rough indication of the sort of tax changes that a move to market-value assessment would entail, it is clear that a shift to a full market-value system would involve very large increases in taxes on single-family residential properties in all regions, and especially in Toronto. It is, of course, largely the aim of averting such a shift that has shaped the evolution of the classified "market-value" system described in Section II above. Indeed, it is hard to follow the recent history of assessment reform in Ontario without concluding that the apparent objective of many is to apply the market-value system in such a way as to reproduce the present distribution of taxes both among jurisdictions and among classes of property within jurisdictions. This point is discussed further in Section VI below.

Finally, Table 7 completes this introductory perspective on property taxes and school finance by bringing together some figures indicating the extent to which education in different areas is presently supported by local taxes and provincial grants. Perhaps the most important point to be made here is that unless all the figures in this table are taken into account, one is likely to obtain a very misleading picture of the relative situation in different areas. It is clear, for example, as the right-hand columns of Table 7 show, that Metropolitan Toronto receives much smaller provincial grants per pupil than any other area and that the poor rural area of Prescott and Russell receives much larger grants. It is equally clear from the table that Toronto

TABLE 6

RATIO OF ASSESSED TO MARKET VALUES, BY CLASS OF PROPERTY, SELECTED AREAS

Area	Single-Family Residential	Multiple Residential	Commercial-Industrial	Other	Total Property Taxpayers[a/]
Metro	8.86	17.97	18.81	13.55	13.03
Peel	44.05	64.68	53.28	35.48	45.24
Sudbury	33.19	51.54	36.54	24.80	35.50
York	32.67	39.31	36.16	25.37	31.63
Windsor	23.17	31.24	38.90	27.58	27.85
Kent	15.80	18.40	23.09	22.89	18.71
Lambton	15.45	27.07	13.26	17.56	18.32
London	13.02	20.04	20.61	13.86	15.69
Prescott and Russell	9.50	13.77	16.10	17.30	12.46
Thunder Bay	8.15	11.57	14.08	11.07	10.45

Note: a/ Excludes provincial, municipal and school board properties which do not now pay taxes (except for in lieu payments on provincial property).

Sources and Notes: See Table 5.

TABLE 7

PERSPECTIVES ON SCHOOL FINANCE, PROVINCE AND SELECTED AREAS

Area	Effective Residential[a/] Tax Rates, 1977		Taxes per Pupil[b/]		Grants per Pupil[b/]	
	(%)	As percent of average	($)	As percent of average	Public Elementary	Secondary
Metro	1.66	108	2,839	189	500	660
Peel	1.29	84	1.643	109	743	923
Sudbury	1.91	124	1,224	82	849	1,386
York	1.09	71	1,491	99	756	983
Windsor	2.30	149	2,055	137	737	1,031
Kent	1.54	100	1,101	73	881	1,143
Lambton	1.50	97	1,521	101	745	1,168
London	1.74	113	1,551	103	894	1,105
Prescott and Russell	1.31	85	721	48	1,553	2,093
Thunder Bay	1.39	90	1,139	76	897	1,198
Province	1.54	100	1,501	100	---	-----

Notes: a/ 1977 residential taxes as a percentage of 1975 residential market value.
b/ Although the enrolment figures used in these calculations were for 1976, the year-to-year variations are not such as to upset the relationships among the different areas. Separate school grants (omitted for reasons of space) vary usually in the same way.

Sources: Calculated from data supplied by Ministry of TEIGA and enrolment data in CODE Interim Report.

receives much more in taxes per pupil than other areas and Prescott and Russell much less (though the relationship between taxes and grants between these extremes is rather less clear cut). Toronto gets 89 percent more per pupil than the provincial average, while Prescott and Russell gets 52 percent less. Sometimes these figures have been used to argue for raising grants to "poor" regions even more.

Too often, however, discussions of this subject neglect the fact that Toronto's effective tax rate on residential property is also substantially higher than in Prescott and Russell -- 27 percent higher to be precise. An even more extreme example of the importance of taking into account the "effort" represented by a given tax yield is afforded by the Region of York and the City of Windsor. The former raises almost as much tax per pupil from residential property as the latter, but at less than half the rate. Windsor of course has a much stronger non-residential tax base than York, but much of this tax (e.g. on the automobile industry) is probably not borne by local residents anyway, and the fact remains that the average house in Windsor is effectively taxed at more than double the rate applied in York.[11] On the other hand, higher effective tax rates may in part simply reflect higher per pupil expenditure.

In view of the importance attached to residential property taxes by both the politicians and citizens of Ontario, it is hard to believe that this differential "effort" has not been taken into account more explicitly in determining provincial grants in the past, as discussed in Section VI below. Windsor, for example, if it taxed residential property at normal rates would have a tax per pupil index of only 91 rather than 136 (provincial average equals 100). Taxes in Toronto, Sudbury, and London would also fall under such a system, though not by so much, while those in all the other areas included in Table 7 would rise, sometimes substantially.

Trends in pupil enrolment, the composition of the tax base, the relation between assessed and market values, taxes and grants per student, effective tax rates -- all these and other important characteristics of the educational

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[11] In the province as a whole the effective tax rate on residential property (1.54 percent) is much lower than that on non-residential property (2.78 percent). Table 7 and the text discussion focus on residential property because it is clear that is what most people are concerned with (Bird and Slack (1978), Chap. 2).

finance environment thus differ greatly from place to place within the province. It is important to keep this variability in mind both when considering the likely impact of property tax reform on educational finance and when designing alternative systems of finance. What seems needed is a system that is simple in concept but flexible enough to adapt to widely varying circumstances without vitiating its basic principles. Section VI attempts to sketch some of the elements of such a system. First, however, the next section considers more carefully the probable effect of tax reform on the existing system of school finance.

V THE IMPACT OF REFORM

Three years ago yet another provincial committee, the Committee on the Costs of Education, neatly set out the major impacts that the introduction of market-value assessment would have on school finance (Committee on the Costs of Education (1975), pp. 135-36). The primary result, of course, would be the substantial shifts within municipalities in the proportion of taxes paid by different classes of property. Furthermore, since in most cases school board jurisdictions include more than one municipality, market-value assessment would also result in adjustments in the apportionment of costs among municipalities. Finally, the move to a market-value basis would also result in adjustments in the rates and amounts of educational grants and consequently in the amounts that had to be raised for school purposes by local property taxes. The first of these effects has already been discussed briefly.[12] This section discusses in a little more detail the prospective impact of market-value assessment on cost apportionment and educational grants.

Apportionment of School Costs

The costs of a school board are apportioned among the lower-tier municipalities included within the jurisdiction of the school board on the basis of equalized assessment. Each lower-tier municipality pays that portion of school costs which its equalized assessment bears to the total equalized assessment of all lower-tier municipalities in the school board jurisdiction. For example, the share of the costs of the Peel Board of Education borne by

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[12] See the discussion of Table 6 above and also Bird and Slack (1978), Chap. 1, for further discussion.

the City of Mississauga is determined by the ratio of the equalized assessment of the City to the total equalized assessment of the Regional Municipality of Peel.

It is important to note that the equalization factors applied to the assessment base are different for school purposes than for general municipal purposes. This divergence dates back to the reorganization of school boards in 1969, which resulted in the inclusion of several municipalities in one school board jurisdiction, thus requiring an apportionment of school costs among municipalities. The direct result of this reorganization would have been that some municipalities paid much higher school taxes than before while others paid lower taxes. To alleviate the impact of such tax shifts, and also because it was generally acknowledged that the municipal factors were only estimates anyway, the Minister of Education was permitted to use equalization factors for education which were different from those used for municipalities by the then Department of Municipal Affairs. The equalization factors used for education apparently were derived by averaging over a period of years the equalization factors for municipal purposes. When the municipal equalization factors were frozen in 1970, they were based on 1969 data. Since education factors are based on an average of earlier years, the equalized assessment used for purposes of both school cost apportionment and general legislative grants is even further removed from any form of market-value assessment than the equalized assessment used for municipal purposes.[13]

The events of 1969-70 probably offer an accurate illustration of what would happen if market-value assessment were introduced throughout Ontario. The resulting increases in tax rates in some areas would be so politically unpalatable that steps would have to be taken to alleviate them, probably by deferring the effect of the shift. The result of such a delay, as with the introduction of the special educational equalization factors in 1970, is of course to make the impact of any eventual shift to market-value assessment even greater for school finance than for municipal finance in general.

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[13]For an example of the calculation of municipal equalization factors, see Committee on the Costs of Education (1975), Appendix A, pp. 283-91. Both the municipal and school equalization factors are discussed critically in the same report, Chap. 3, which is the source for most of the information in this paragraph.

The prospect of this greater impact may in turn result in further delays. An old tax may not necessarily be a good tax, but when the only way to correct old inequities is by raising some taxes, the activity is always hazardous for politicians.

In any event, to the extent that a municipality is over-assessed relative to other municipalities within the same school board jurisdiction, it now pays a larger share of school costs than it would under market-value assessment. Naturally, the reverse is true for a municipality that is relatively under-assessed. The City of Sarnia, for example, claims that it pays 45 percent of the cost of the Lambton County Board of Education whereas it should (on a market-value basis) be paying only 38 percent.[14]

A shift to any form of market-value assessment will thus obviously have an impact on the apportionment of school costs among municipalities within a school board jurisdiction. Municipalities which currently are relatively over-assessed compared to other municipalities in the school board area will pay a smaller share of school board costs. Similarly, those currently under-assessed relative to other municipalities will pay a larger share. To the extent that there are now inequities in the assessment of properties across municipalities in a school board area, market-value assessment will result in shifts in school taxes among municipalities. There is no reason to think that such shifts will be any more politically palatable -- or, indeed, are any more likely to be actually implemented -- now than was the case with the lesser shifts of 1969-70.

Education Grants

Two aspects of the proposed property tax reform will have a direct impact on general legislative grants (and hence on school taxes) -- the proposal to tax school properties and the proposal for some form of market-value assessment. Payments on school properties will naturally result in increased education expenditures by all school boards, though the amount will vary from board to board depending on the value of school property, as will the relative "gain" or "loss" situation with respect to school taxes on municipal property

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[14] Remarks by the Hon. Darcy McKeough (1978), p. 5.

and municipal taxes on school property (see Table 5).[15]

In any case, this increased expenditure will require some sort of alteration in the "recognized" expenditure set by the province for grant purposes. If recognized expenditures are increased by some average amount, as might well be done for simplicity, those boards with payments on school properties above the average that are at or above the expenditure ceiling will be forced to finance these additional expenditures through local property taxes. Those boards below the ceiling would, under this system, receive a grant to cover the same portion of tax payments on school properties as for other expenditures. Alternatively, if the Ministry of Education decided to pay the entire tax levy on school properties there would be no net effect on school taxes from this feature of the new system; there would also, however, be little economic benefit from taxing schools if the operating boards could continue to ignore the real social costs of the land they hold, as is now the case (Bird (1978), p. 12).

An interesting argument against taxing schools raised by the Association Francaise des Conseils Scolaires de l'Ontario was that to do so would tend to exacerbate relations between boards and municipalities (whose zoning decisions would, they argued, essentially determine the market-value of board properties) -- thus perhaps leading to a reduction in cooperative community use of schools. The taxation of schools was also opposed by the Ontario Separate Schools Trustees Association both on constitutional grounds and on the grounds that it would amount to useless cross-hauling of revenues, serving mainly to confuse taxpayers. Without commenting on the complex constitutional question of separate schools, the main response to such arguments is, as already noted, that forcing municipalities and boards alike to take explicit account of the social value of the property they hold is not an undesired consequenece of the reform but one of its objectives.

Arguments such as these are valuable, however, in illustrating the complexity, confusion and resentment that surrounds even the simplest proposition

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[15] Under the Committee system, for example, the Metro School boards would in 1977 have paid $69.7 million in taxes compared to $59.9 million for the municipality; in the City of Windsor, on the other hand, the municipality would have paid $2.6 million compared to $1.3 million for the school board.

for change in a well-established order of things. The possible intellectual and efficiency merits of an idea like that of taxing school properties are quickly lost sight of when those affected begin to think concretely of the actual impact of the change in a particular instance -- especially when, as in this case, important matters such as the treatment for grant purposes of the taxes paid on school properties have been left up in the air. Despite the time, talk, and paper devoted to the subject of property tax reform in recent years, it is impossible to read the long list of reservations to the Report of the Provincial-Local Committee -- reservations entered by nine of the 15 Committee members -- without concluding that even these well-informed people were in some instances still groping in the dark so far as understanding exactly what certain aspects of the reform proposals would mean for the interests they represented. In other instances, of course, it is clear that they understood the implications of the proposals quite well and found them either philosophically or politically unacceptable.

The implementation of some form of market-value assessment would also directly affect the education grant received by different boards. In 1977, for example, the grant received depended, in part, on the ratio of the equalized assessed value of the school board to the provincial average equalized assessed value. To the extent that the municipalities in the school board jurisdiction have been over-assessed relative to the provincial average, market-value assessment will lower the ratio of assessed value to the provincial average assessed value, and thus raise the rate of grant (and therefore the amount of grant) to that school board. If the board were relatively under-assessed, the grant would be lowered. Although the form of the grant was changed in 1978, the impact on general legislative grants for 1978 will be the same since the province derives the equalized mill rate using the provincial average equalized assessment. The appendix to this paper contains a brief comparison of the 1977 and 1978 grant formulas.[16]

Once again, then, the boards that will have to resort to increased school taxes are those whose expenditures are above the per pupil expenditure ceiling

[16] The effect on grants for recognized extraordinary expenditures is not discussed but the formulas are similar. Only the numbers (e.g. the portion paid by the province, the recognised expenditure, etc.) are different.

established by the province. The grant will also be reduced, of course, for these boards that have been relatively underassessed compared to the rest of the province.

The extent of the resulting shifts in grants -- shifts that, it will be recalled, would partly be matched by offsetting shifts in school taxes -- is illustrated in Table 8 for the classified market-value system proposed by the Provincial-Local Committee (1978). Even with the greatly muted shift to a market-value base set forth in that report, the effect on grants would be dramatic. Peel, for example, would receive 53 percent less in grants for recognized ordinary expenditure (ROE) in public elementary schools, while Windsor would receive 20 percent more.[17] The amount of money received by most school systems would change little under these proposals but insome cases the allocation among local taxes, provincial payments in lieu of taxes, and grants would obviously shift drastically. In the province as a whole, for example, total educational grants would, it is estimated, decline by $197 million under the Committee system, with this amount being made up by the school portion of the increased provincial payments in lieu of taxes on its own (and farm) properties. In some areas, however, local taxes would also have to be raised to make up for the fall in grant; school board trustees in the affected areas (e.g. Northern Ontario) are unlikely to contemplate this prospect with equanimity.

Quite apart from the effects of property tax reform, it is important to note that both the rate of grant and the expenditure base to which the grant applies will be affected by relative declining enrolment. Since the rate of grant depends on equalized assessed value per weighted pupil relative to the provincial average equalized assessment per weighted pupil, a change in the number of pupils will usually affect the grant rate. For example, if a given school board experiences declining enrolment which exceeds the provincial average decline, then the ratio of equalized assessed values will rise and the rate of grant will fall. In such boards, then, unless this effect is offset by changes arising from property tax reform, a larger proportion

[17] These calculations assume that the ROE ceiling per pupil would be increased by $85, the provincial average gross property taxes per pupil, with Boards spending below the ceiling have actual property taxes added to ordinary expenditure.

TABLE 8

EFFECTS ON EDUCATION GRANTS OF SHIFT TO COMMITTEE SYSTEM

(Per Cent Change)

Area	Public Elementary	Separate	Secondary
Metro	- 1.9	- 1.8	+ 6.1
Peel	- 53.2	- 3.7	- 45.7
Sudbury	- 8.2	+ 2.4	- 0.2
York	- 60.2	- 8.8	- 47.9
Windsor	+ 20.1	+ 7.3	+ 19.9
Kent	- 7.7	- 3.8	- 4.1
Lambton	- 15.0	- 0.3	- 7.0
London	- 4.7	- 0.3	- 0.4
Prescott and Russell	- 10.6	- 2.9	- 4.3
Thunder Bay	- 24.3	- 3.5	- 15.0

Source: Calculated from data obtained from TEIGA.

of school costs will have to be financed by property taxes. Table 4 suggests that many boards will, under the present granting formula, face increasing problems for this reason in the future.

With respect to the expenditure base, a decline in enrolment will result in a change in per pupil expenditures. When enrolment falls, expenditures may also fall, though probably not by as much as enrolment, owing to certain fixed costs in providing education services. Expenditures per pupil will thus likely rise when enrolment falls. If expenditures per pupil rise above the recognized ceiling, an increase in property taxes will result -- unless, of course, the ceiling has been adjusted sufficiently upwards to avoid this result, or the granting formula has been changed. (A declining enrolment weighting factor was in fact used in 1975/76, though not for later years.)

In general, then, with a grant system depending heavily upon the number of (weighted) pupils and a provincially-determined maximum grant-supported expenditure per pupil, it is obvious that declining enrolment will, unless the parameters of the system (or the system itself) are changed, substantially alter the grant rates and the amounts received by different boards. When these effects are combined with those arising from even a modified move to market-value assessment, as discussed above, two points become very clear. In the first place, it is not terribly useful to discuss the effects of property tax reform without simultaneously considering grant reform and indeed the reform of the whole school finance system; this point is developed further in Section VI below. Secondly, it is not possible, at least not without much more detailed information than we possess, to determine precisely the net effects of all these changes on any particular board. On the basis of the discussion in Section IV above, however, it is clear that no simple or obviously justifiable pattern of results is likely to emerge; again, a more fundamental rethinking of the educational finance system seems more essential than further playing with endless numerical permutations and combinations.

Appraisal of Reform

The property tax reform discussion has brought out in bold relief several very fundamental issues in Ontario provincial-municipal politics. The property tax discussion in recent months, for instance, has focused especially sharply on Metro Toronto vs. the rest of the province, and on the City of

Toronto in particular within Metro. Some much more fundamental issues than at first suspected turned out to be involved in this conflict. The Provincial-Local Committee recognized that Metro was not a region like the others and proposed a less drastic change there than elsewhere. In response, Chairman Godfrey of Metro asked for an even longer and more discretionary phase-in period. In the subsequent discussion it became quickly apparent that even more compromise and delay -- probably much more -- would be needed to make the proposed shift palatable, in particular to the City of Toronto. Changes arousing such passions are not made easily or with pleasure, by minority governments.

Fundamental disagreement with the whole idea of market-value assessment really lies at the roots of the interesting argument put forth by the Board of Education for the City of Toronto, originally in a submission to the Blair Commission, against the proposed system as forcing families to move out of neighbourhoods and thus changing in an undesirable way the composition of the inner city population. As the Board's brief put this case: "the resulting higher taxes coupled with higher resale values of properties will encourage families to move out and their replacements will tend to have fewer, if any, children. The decline in the residential population will reduce the need for the neighbourhood commercial services and small businesses will be forced to close or relocate elsewhere. The planning goals of the City of Toronto will be frustrated. The Toronto Board will be faced with dwindling enrolments, empty classrooms and lower grant levels and proportionately higher overhead costs. Even more important, these changes could reduce the quality and range of academic programming throughout the school system."[18]

This rather apocalyptic statement undoubtedly attributes far too much weight to the impact of property tax changes -- and also ignores the fact that higher taxes in themselves lead to lower (not higher) resale values -- but it illustrates unusually clearly the far-reaching associations some attach to what began as a simple adjustment to the perceived inequity of the existing assessment system. What the Toronto Board is really arguing, it might be

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[18] Board of Education (1976), p. 15. Similar arguments were repeated, more briefly, in later submissions in 1977 and 1978.

said, is that an old tax inequity is a good inequity from the point of view of land use planning and educational quality. Although this argument seems in a broader social context to be not only far-fetched but also largely irrelevant -- if the people of Ontario choose as a matter of policy to maintain large families in the City of Toronto, it is hard to believe that the policy instrument of choice would be undertaxing residential property in the City relative to property elsewhere -- there is little question that it (and the sister arguments heard in the North, in rural areas, in other cities) epitomizes the reasons why the move to market-value assessment has encountered such resistance in Ontario.

In principle, the City and Metro problems -- as well as some of the other "regional" difficulties could perhaps be accommodated by allowing regional option as to whether and when to adopt market-value assessment. In practice, however, if the original objective of redressing grant inequities is to be achieved, two separate assessment rolls would have to be maintained, an obviously cumbersome and wasteful procedure. If this were not done, the decision as to how much in provincial grants should go to one region (e.g. Metro) relative to the rest of the province would become almost completely arbitrary, a result that would likely be acceptable to no one.

An alternative solution, apparently ruled out for reasons that are far from clear, might be to require market-value assessment everywhere but to allow municipalities to charge whatever tax rates they chose by class of property. This approach would both resolve the grant problem and allow the retention of whatever differentials were locally favoured. The only argument against allowing local option in this sense appears to be the distrust of many for real local autonomy. A common objection to such proposals, for example, is that municipalities would then choose to "overtax" (or "undertax") industry thus driving it away (or "unfairly" attracting it). Although this is not the place to explore this question in detail, it is hard to see why the province should be unduly concerned with such municipal "mistakes." If the voters in an area do not like the results, they can presumably, in time, change them, and the province's grant policy can in the meantime adequately reflect its view of what municipalities "should" be doing (see Section VI below). In any event, the province surely has enough other instruments to

regulate municipal development without having to force all municipalities into a rigid, uniform, province-wide local tax system in order to offset such potential "problems."

The recent prolonged debate on property tax reform, and its probable outcome of either no action or severely delayed and modified action, has also gone a long way to support several propositions put forth in a recent study (Bird and Slack, (1978), Chap. 2). It is clear, for example, that -- contrary to the argument in the preceding paragraph -- the property tax is perceived on all sides as principally a provincial rather than a municipal responsibility. Even more important is the widespread acceptance, for whatever reason, of the idea that residential property, and especially single-family owner-occupied residential property, should be favourably treated under the property tax. Although there is really no economic reason or even any convincing equity argument for such favouritism, it is clearly a political necessity in Ontario. No significant increase in residential property taxes appears likely to be acceptable in this province in the near future. Indeed, as Table 3 suggested, it is not even clear that governments will be able to increase the absolute amounts of nominal residential property taxes sufficiently in the face of inflation to maintain the purchasing power of the revenues thus obtained. One disconcerting outcome of the decade-long agitation for property tax "reform" in Ontario may thus be the realization that this tax -- or at least its important residential component -- is an even weaker reed upon which to rest a system of school finance than had previously been thought.

Like a number of other arguments in this paper, this line of thought suggests that property tax changes are more likely to exacerbate than to relieve the pressures on the province's educational system arising from declining enrolment. Indeed, from a broad political point of view, there can be little question that the main interconnection between the two phenomena perceived by many politicians will inevitably flow in the other direction, with enrolment decline seen as a golden opportunity to lighten the pressure on the unpopular property tax.

The continuing uncertainty about the future of property tax reform in Ontario makes it difficult to be very precise about its impact on educational finance. Some of the more obvious potential impacts -- on grants and on cost

appoinrtionment, for instance -- have been discussed in general terms in this section. One conclusion emerging from this discussion is that the basic policy issues of what should be done and how best to do it are far more important than any particular set of numbers that might be assembled at this point. Indeed, it is hard to avoid the impression that the massive simulations of the effects of various alternatives generated by the Treasury, valuable though they are for many purposes, may have led to so many marginal adjustments to reduce this or that "undesired" impact, as revealed in the numbers, that the principal aims of the reform seem to have been forgotten. Another conclusion, more directly relevant to the present paper, is that almost any property tax reform is likely in some ways to exacerbate the school finance situation, which is already in serious straits (Bird (1978)): indeed, as things stand, serious politicians are likely to look to the lesser need for school finance due to declining enrolments as a way of resolving the difficulties caused for them by rising property taxes. The final section of the paper puts forth some preliminary proposals on alternative approaches to both school finance and tax reform which might, if accepted, help to steer the discussion into some more rewarding channels.

VI ALTERNATIVE APPROACHES

Provincialization of Education

An earlier survey of the issues and choices in financing education in Ontario concluded that perhaps the most promising solution was "...the complete provincialization of education, with the concomitant removal of educational taxes on residential property and perhaps the shift of non-residential property taxes to the provincial level" (Bird (1978), p. 32). This solution was put forth both as the logical culmination of recent trends in the organization and financing of education in the province and as a way of separating to some extent the question of the appropriate level of educational spending from that of the appropriate level of the property tax. The argument in the preceding section lends even more weight to the second of these reasons for favouring a complete provincial take-over of educational finance. The first reason mentioned has also received significant support from a recent paper by David Cameron (1978), which argues strongly for changing the institutional structure of educational organization and finance to reflect the reality of

provincial responsibility and authority.[19]

The main financial consequence of making education entirely a provincial responsibility would be to sever completely the remaining tie between the local property taxes and educational finance. As noted in Section III above, in 1977 school taxes accounted for 47 percent of all property taxes (and 43 percent of school board revenue). By coincidence, non-residential property taxes accounted for almost the same proportion of total property taxes in that year (49 percent). As suggested in the passage quoted in the preceding paragraph, one obvious way to finance the transfer of all educational costs to the provincial budget would thus be by dividing the property tax base, with the province taxing non-residential property and the municipalities' residential property. There is no reason to expect revenues from this source to grow over time at the same rate as expenditures on education, but at least this move would require almost no adjustment in the composition of the total provincial-local tax mix in the initial stages of the transition.

Moving the taxation of non-residential property to the provincial level would have several other potential advantages. In the first place, this split would lead to a clearer recognition of the fact that there are already really two quite different taxes levied on real property in Ontario: in 1977, for example, the effective rate on residential property was only 1.5 percent, compared to the 2.8 percent levied on non-residential property. Secondly, this move would also facilitate more formal recognition of the considerable difference in practice between assessing non-residential properties -- often special-use properties with little market turnover -- and residential properties, which are generally much more amenable to computer-assisted mass appraisal techniques and for which as a rule there are many more comparative sales data. It may even prove desirable to turn back the local assessment

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[19] His characterization of the present system bears repeating: "In many ways the present intergovernmental structure offers Ontarians the worst of both worlds. They do not obtain the advantages of centralization because provincial policy and funding must continually sustain the myth that key decision are made by school boards. They are denied the benefits of local government because they are forced to act through regional school systems which are isolated from other local and regional political units and which are in any case such large amalgamations of schools that few educational matters of concern to local communities survive such aggregation" (Cameron (1978), p. 30).

process (now for residences only) to local assessors, presumably working under provincial guidelines and supervision. Thirdly, splitting the property tax base in this way might also facilitate the redesign of the tax in various ways. The residential property tax, for example, might be altered over time to accord more closely with the "benefit" basis which most taxpayers seem to think it already has. This point is discussed further below. Similarly, the "site value" and "business tax" aspects of the non-residential property tax might be considered separately, and the tax perhaps redesigned so as to better achieve policy goals other than those generating local revenue.

As argued in Section IV above, an important aspect in considering any such drastic policy change would be its varying effects in different parts of the province. Will the municipality of Metropolitan Toronto be able to manage as well with only 58 percent of its present tax base? What about the County of Kent, with only 41 percent of its tax base left to it? It is clear that the proposal put forth in this section in very broad terms requires much more detailed -- and local -- evaluation before it can be considered seriously. Nevertheless, the virtues at this time in Ontario's history of severing the old connection between school finance and local property taxes seem strong enough to warrant undertaking the studies necessary to make this idea a reality.

Grant Reform

A provincially-organized educational system may still have an important role for local school "councils," and these councils may well receive their income in the form of "grants" -- but if so they would be most unlikely to be the kind of complex and confusing grants now in existence (see Appendix). Even if the essentially intergovernmental system of educational organization and finance is retained, there seems good reason to consider grant reform to cope with both declining enrolments and with some aspects of the interdependence between grants and the property tax system. As Cameron (1978, p. 36) has suggested, the problem of delcining enrolment could perhaps be handled adequately by calculating enrolment for grant purposes using an averagin-formula that incorporated enrolments over a three to five-year period. The problem of incorporating a really equitable assessment basis into the grant formula cannot be dealt with so simply, however. Indeed, perhaps the most

workable approach to this problem might be simply to discard the complex grant formulae that have grown up in recent years and start again.

A proposal along these lines warranting more discussion than it seems to have received was actually put forth by the Committee on the Costs of Education in 1975. The essence of this proposal was to reverse the pre-1978 situation, under which the Ministry of Education determined the grants on the basis of a formula and the local boards then raised through property taxes the differences between the grant amount thus determined and their actual expenditures. Under the Committee's proposal, the grant paid to a board would be the difference between a basic level of per pupil expenditure and the yield of a uniform tax on equalized assessment. The principal difference between this proposal and the pre-1978 system is that this system explicitly requires a uniform "tax effo-t" from all boards; most other features of the system could, if desired, be designed in much the same way as in the present system. Those boards below the established expenditure limits, providing they were making the required "effort," would have all expenditure increases up to the limit paid by grants. Those boards above the limits (as before) would have to meet all increases out of local taxes. The essence of this proposal was apparently adopted by Ontario in the new 1978 grant system, although in a rather complex way.[20]

In principle, such a system should provide more stability and certainty to both the province and the boards and should also be fairer than the earlier system by taking into account not only the assessment base but also the yield of a "standard" tax rate. In practice, it will of course be possible to juggle the results of this system, like any other system, by altering such parameters as "basic" expenditure and the required uniform tax rate. Assuming the assessment base was uniformly determined everywhere (as will be the case only if the present system is altered to a market-value or some other uniform

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[20] Let e be the basic per pupil expenditure, P the number of pupils, t the uniform mill rate, V the equalized assessment, and G the grant. Then the Committee's grant formula would be $eP-tV=G$. If a board spent more than provided in the basic formula ($E > eP$), then all the additional expenditure would have to met through additional local taxes. See the Appendix to this paper for a brief description of the 1977 and 1978 grant systems. As shown there, the 1978 formula is similar in form to that sketched in this note.

basis), this system would also obviate the need for explicit cost apportionment among the municipalities in a school board jurisdiction (Committee on the Costs of Education (1975), p. 188). It also offers the prospect of consi-erable administrative simplification, if so desired. The most important point to be made, however, is that only a reform such as this, carried out in conjunction with the introduction of a more equitable property tax base, can completely avoid the kinds of (presumably undesired) effects that will, as discussed in Section V, result from the latter alone.

Property Tax Reform

The rationale for property tax reform was well-stated by Mr. McKeough when he introduced the Alternative System earlier this year. Market-value assessment would, he said, redress six kinds of inequity characterizing the present system: (1) inequities in the distribution of provincial grants;(2) inequities in the apportionment of costs among municipalities; (3) inequities in tax burdens on different classes of properties; (4) inequities in the tax burdens of similar individual properties; (5) inequities in the treatment of government properties; and (6) inequities in the exemption of certain properties (Remarks (1978), p. 4). What the subsequent discussion appears to have shown is that no one considers a provision that favours his interests to be an "inequity'; rather, existing favouritism, however "unfair" in terms of some abstract standard of justice appears to be treated as a "right," to be abrogated only with full compensation, if at all.

Market-value assessment may have been, in effect, rejected in Ontario, at least for the time being.[21] No matter what it is to be called, however,

[21] Actually, it seems unlikely that most participants in the debate ever had much idea of what "market-value assessment" really means anyway. As Finnis (1977, 448-49) correctly noted, one must distinguish appraisal from assessment. No one knowledgeable in assessment has ever proposed, or even could propose, that assessments based on market values would be synomous with the prices particular properties might in fact fetch at the present time, though this a-pears to be what many people understand by the term. At most, the aim is to allocate taxes among properties on the basis of the average sales values realized on roughly similar properties several years ago -- and in many cases (e.g. industrial property) even this information is lacking so other methods of determining value must be used (see Oldman and Schoettle (1974, 139-98), for an excellent detailed outline of all this).

there remains a clear need for some non-arbitrary, relatively uniform means of establishing the tax base for property tax purposes, if only to avert a flood of tax appeals swamping the court system -- a prospect that some think is very close to being realized already. The relevant question is not whether a particular measure of the tax base is an accurate index of whatever particular label has been fastened to it (market-value, benefit, ability to pay), but rather whether the allocation of taxes that result from following this measure is considered to be socially and politically acceptable. Whatever one's views on the merits of correctly-applied "market-value assessment" procedures in this light -- and they are considerable -- it appears that the future in Ontario of this particular approach to making the property tax a more equitable and acceptable fiscal instrument (as well as to restructuring the grant base) is bleak.

In these circumstances, it seems worthwhile to consider very briefly two other approaches to property tax reform, with special attention to the residential property tax both because that is the aspect of the system on which most popular attention seems continually to be fostered and because it was earlier suggested that the only local taxes should be residential property taxes anyway.[22] One such approach, which offers the additional benefit of removing the disincentive to improve property inherent in the present (or the market-value) system, is to move to a "land value" basis, levying taxes only on the value of the site and not on the buildings occupying that site. This proposal is, as experience in various countries has shown, quite workable (see Holland, 1970); it also has many potential advantages in encouraging better land use, reducing urban sprawl, and so on (see Becker, 1969). It is not likely to prove very popular in Ontario, however, either with the provincial assessors -- who are as a rule firmly committed to the notion that one cannot assess land and buildings separately -- or, more importantly, with the public. While most would doubtless applaud substantial increases in taxes on vacant land, older single-family homes in central areas would -- just as under the market-value system -- generally suffer very large tax increases under a site-

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[22]The correct design and operation of a provincial tax on non-residential property is neither a simple nor a settled subject, but it would take us even further astray from the main subject of this paper to go into it further here.

value tax as well, thus leading to the same political protests that have stymied the present reforms.

A bolder and more experimental approach might be to take at their word all those who talk about the property tax as though it were a payment for municipal services and to move the tax closer to a true benefit basis. As noted elsewhere (Bird, 1976, Part 3) there are indeed very considerable advantages, and few disadvantages, to be gained by charging more directly for many more municipal services. It may well be that a thorough-going revamping of the property tax along benefit lines would form a desirable part of a move in this direction. As Vickrey (1963) noted long ago, however, few benefit-related charges would vary with the value of either land or buildings: instead, factors such as land area and front footage are more likely to provide the best basis for a "benefit" - related property tax. The local tax might still be called a "property tax," but in such a system it would really be more a bundle of property-related user charges than a levy related in any simple way to the gross value of real property. Attractive as schemes along these lines mig-t seem to some economists, however, the resulting redistribution of burdens among taxpayers, though probably not identical to the shifts that would occur with difficult to sell politically as market-value assessment itself. Like land-value taxation, benefit-based property levies appear to be an idea whose time has not yet come.

The conclusion of this brief review of the property tax thus appears to be that the present system is unsatisfactory; so, it appears, is the market-value system; and so also, in all likelihood, would be either site-value taxation or a move towards benefit taxation (or some combination of these two). In these circumstances, perhaps the best practical approach -- though the least desirable conceptually -- is to stay as close as possible to the present local tax system, making such marginal improvements (e.g. to redress the more glaring inequities within types of properties within communities) as possible, while perhaps utilizing a more uniform market-value basis for grant purposes along the lines sketched earlier. Restructuring the organization and financing of education as suggested above would not in itself render the task of residential property tax reform any easier; but it might clarify the issues a bit and enable Ontario to undertake a badly-needed fresn look at the whole

question of the appropriate role and structure of residential property taxes in the provincial-municipal fiscal system.

APPENDIX

Comparison of 1977 and 1978 Grant Formulas

1977 Formula

Let G = grant per pupil

t = percentage of expenditures paid by school board

V = equalized assessed value per weighted pupil

Vp = provincial average equalized aysessed value per weighted pupil

E = maximum recognized ordinary expenditure per pupil

w = weighting factor

Then $G = (1.00 - t\frac{V}{Vp})\ wE$

With this formula all expenditures greater than wE must be financed entirely through property taxes. The province pays a constant share of expenditures up to wE, with the share varying from board to board in accordance wit- the ratio of the board's equalized assessed value per weighted pupil to the provincial average. In 1977, t=0.4, E=$1197 and Vp=$64,200.

1978 Formula

In 1978 this formula was changed from the above variable percentage grant to what is called "mill rate equalization," thus incorporating the idea of effort so that "...all school boards with the same mill rate (effort) on their equalized property assessment will have the same financial revenues per pupil (yield) through a combination of local property tax revenues and Provincial grants" (Benson, n.d., p. 2).

The new formula is: $G^* = wE^* - 7.986V^*w$, where G^*, E^*, and V^* are defined as above, except not in per pupil terms, and 7.986 is the equalized mill rate.

1977 and 1978 Compared

The 1977 formula given above may be rewritten as follows:

$$G = wE - t\frac{V}{V_p}wE$$

$$= wE - t\frac{wE}{V_p}V$$

$$G^* = wE^* - t\frac{E}{V_p}V^*w$$

The 1978 formula given above is comparable to this version of the 1977 formula since the equalized mill rate of 7.986 is equal to t(E/Vp), or that portion of the maximum recognized ordinary expenditure per pupil paid by the school board divided by the provincial average equalized assessment. Given that for 1978, V_p = 68,317, E = 1299, and t = .42, it can be seen that the equalized mill rate is equal to .42(1299) ÷ 68,317 = 7.986 mills. In 1977, the equalized mill rate was .4(1197) ÷ 64,200 = 7.458 mills, or about half a mill lower than in 1978. The only assumption needed for this comparison is that the number of weighted pupils is the same in the determination of the rate of grant as in the determination of "recognized" expenditure.

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